

## **FACT SHEET**

### **The Loan Guarantee Recovery Fund**

- On July 3, 1996, President Clinton signed the Church Arson Prevention Act of 1996 (the “Act”), authorizing the Department of Housing and Urban Development to establish a Loan Guarantee Recovery Fund to provide nonprofit organizations, including places of worship, with a source of financing to rebuild property damaged or destroyed by an act or acts of arson or terrorism.
- A nonprofit organization (including places of worship) initiates the loan-making process by submitting a HUD application requesting a rebuilding loan to a local bank or other financial institution
- A Financial Institution reviews the application, seeks additional financial data, if necessary, conducts its underwriting analysis (using its own underwriting standards) and makes a submission to HUD requesting a loan guarantee.

The Financial Institution must submit to HUD:

1. A statement certifying the institution is a Financial Institution as defined at 24 CFR §573.2
  2. A narrative of the institution’s underwriting standards used in reviewing the Borrower’s loan request.
  3. The interest rate on the loan (which must be below prime as it takes into account the value of the HUD guarantee) and fees the lender intends to use in connection with the loan.
  4. The percentage of the loan for which a guarantee is requested.
  5. A copy of the Borrower’s application (FYI - Borrower’s application should contain):
    - a. A statement certifying that the Borrower is eligible as defined at 24 CFR §573.2
    - b. A description of each eligible activity (cited at 24 CFR §573.3) for which the loan is requested.
    - c. A statement of other available funds to be used to finance the eligible activities.
    - d. A certification by the borrower that the activity(ies) to be assisted resulted from an act of arson or terrorism which is the subject of the certification described in paragraph (e) of this section.
    - e. A certification by a Qualified Certification Official that the damage or destruction to be remedied by the use of the Guaranteed Loan Funds resulted from an act of arson or terrorism as defined at 24 CFR §573.2 of the regulations.
    - f. The environmental documentation required by 24 CFR §573.8
- A nonprofit organization (including a place of worship) may use the proceeds of the guaranteed loans to finance activities to construct and rehabilitate structures, replace and restore personal property, and to carry out other eligible activities.
  - Generally, the Loan Guaranty Recovery Fund proceeds may be available only to aid in financing the replacement of damage or destroyed property with comparable new property, such new property being a structure of similar quantitative and qualitative features as the arson damaged or destroyed property.
  - The term of the loan may not exceed 20 years.
  - All advances and repayments under the note must be reported to HUD on a monthly, but not less frequently than a quarterly basis.
  - The Financial Institution must provide written notice of a monetary or a non-monetary default. A monetary default shall occur only when the Borrower has failed to make three consecutive monthly payments within thirty days of the due date.
  - Upon default, the Financial Institution may accelerate the debt and request Full Payment with ten days prior notice of its intent to accelerate to the Borrower and HUD. Fifteen days after it receives notification of the Financial Institution’s intent to accelerate, HUD shall advise the Financial Institution of actions it needs to take, if any, prior to Full Payment.